



Nicole Galloway, CPA

Missouri State Auditor

Office of State Treasurer

Report No. 2021-036

June 2021

auditor.mo.gov



Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Office of State Treasurer

Background	<p>The Office of State Treasurer is an elective office as provided in the Missouri Constitution. The duties of the State Treasurer as defined by Article IV Section 15 are to be the custodian of all state funds; to determine the amount of state monies not needed for current operating expenses; and to invest such monies in interest-bearing time deposits at Missouri banking institutions selected by the State Treasurer and approved by the Governor and State Auditor, short-term U.S. government securities, or certain allowable commercial paper and banker's acceptances.</p> <p>The Office of State Treasurer operates in four major functional areas (1) accounting and banking services, (2) general and administrative services, (3) investments and deposit programs, and (4) unclaimed property.</p>
Findings	<p>The audit identified no significant deficiencies in internal controls, no significant noncompliance with legal provisions, and no significant deficiencies in management practices and procedures. No findings resulted from this audit.</p>

In the areas audited, the overall performance of this entity was **Excellent**.*

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

Office of State Treasurer

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NICOLE GALLOWAY, CPA

Missouri State Auditor

Honorable Scott Fitzpatrick, State Treasurer
Jefferson City, Missouri

We have audited certain operations of the Office of State Treasurer, in fulfillment of our duties under Chapter 29, RSMo. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2020. The objectives of our audit were to:

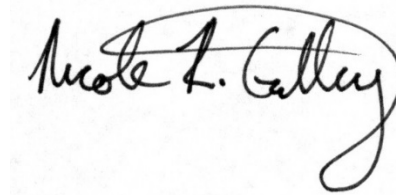
1. Evaluate the office's internal controls over significant management and financial functions.
2. Evaluate the office's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the office, as well as certain external parties; and testing selected transactions. We reviewed receipt, disbursement, and payroll transactions, and cash and investment activity; and performed sample testing of some of these areas using haphazard and judgmental selection, as appropriate. We obtained an understanding of internal control that is significant to the audit objectives and planned and performed procedures to assess internal control to the extent necessary to address our audit objectives. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of applicable contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the office's management and was not subjected to the procedures applied in our audit of the office.

For the areas audited, we identified (1) no significant deficiencies in internal controls, (2) no significant noncompliance with legal provisions, and (3) no significant deficiencies in management practices and procedures. No findings resulted from our audit of the Office of State Treasurer.

A handwritten signature in black ink, reading "Nicole R. Galloway". The signature is fluid and cursive, with a large loop at the end of the last name.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Robert E. Showers, CPA, CGAP
Audit Manager:	Robyn Vogt, M.Acct., CPA, CGAP
In-Charge Auditor:	Nicole Cash, MBA, CFE, CGAP
Audit Staff:	Albert Borde-Koufie, MBA
	Logan J. Vogel

Office of State Treasurer

Organization and Statistical Information

The Office of State Treasurer is an elective office as provided in the Missouri Constitution. The duties of the State Treasurer as defined by Article IV Section 15 are to be the custodian of all state funds; to determine the amount of state monies not needed for current operating expenses; and to invest such monies in interest-bearing time deposits at Missouri banking institutions selected by the State Treasurer and approved by the Governor and State Auditor, short-term U.S. government securities, or certain allowable commercial paper and banker's acceptances.

The Office of State Treasurer operates in four major functional areas (1) accounting and banking services, (2) general and administrative services, (3) investments and deposit programs, and (4) unclaimed property.

The accounting and banking services area (1) maintains a fund accounting system to fulfill a statutory responsibility to keep separate accounts of the funds of the state and to allocate investment interest to funds, (2) maintains ledger controls on fund balances and appropriations to assure that no check is issued that exceeds the lawful appropriated balances, (3) controls receipt of state monies collected by state agencies and deposited in local banks throughout the state, (4) reconciles bank activity to receipt and disbursement activity reflected on the state books, (5) determines the amount of state monies not needed for current operating expenses, and (6) confirms daily disbursements with the bank as certified by the Office of Administration.

The general and administrative services area provides processing support to other areas of the office by (1) operating the central check mail service, (2) controlling and processing outlawed and replacement checks, and (3) processing invoices for office expenditures.

The investments area places state monies not needed for current operating expenses in interest-bearing time deposits, U.S. government and agency securities, commercial paper, banker's acceptances, and repurchase agreements. This area also administers the State Treasurer's statutory linked deposit program and monitors and accounts for the collateralization of state funds.

The Unclaimed Property Division administers Missouri's Unclaimed Property Act (Chapter 447, RSMo). The Unclaimed Property Division is responsible for (1) ensuring unclaimed property is reported, (2) receiving and recording reports of unclaimed property, (3) depositing unclaimed funds to the Abandoned Fund Account Fund, (4) maintaining custody and safekeeping of abandoned or unclaimed physical property, and (5) processing owner claims for abandoned funds or physical property.

Governor Michael L. Parson appointed Scott Fitzpatrick as the forty-seventh State Treasurer, and was sworn in on January 14, 2019. Treasurer Fitzpatrick



Office of State Treasurer Organization and Statistical Information

was elected to a four year term of office in November 2020. His term expires in January 2025.

As of June 30, 2020, the office had 41 full-time positions to assist in the accomplishment of its mission.

Financial Activity

A summary of the office's operating financial activity, cash and investment balances, and investment income is presented in the following Appendixes and in the Notes to the Appendixes.

Appendix A

Office of State Treasurer Statement of Receipts, Disbursements, and Changes in Cash and Investments Year Ended June 30, 2020

STATE TREASURER'S GENERAL OPERATIONS FUND

Receipts	\$ 2,761,729
Disbursements	<u>2,090,682</u>
Receipts Over (Under) Disbursements	<u>671,047</u>
Transfers In ¹	1,900
Transfers Out ²	<u>(895,870)</u>
Receipts Over (Under) Disbursements and Transfers	<u>(222,923)</u>
Cash and Investments, July 1	<u>2,068,243</u>
Cash and Investments, June 30	<u><u>\$ 1,845,320</u></u>

TREASURER'S INFORMATION FUND

Receipts	\$ 697
Disbursements	<u>243</u>
Receipts Over (Under) Disbursements	<u>454</u>
Transfers In	0
Transfers Out	<u>0</u>
Receipts Over (Under) Disbursements and Transfers	<u>454</u>
Cash and Investments, July 1	<u>2,371</u>
Cash and Investments, June 30	<u><u>\$ 2,825</u></u>

CENTRAL CHECK MAILING SERVICE REVOLVING FUND

Receipts	\$ 82,087
Disbursements	<u>70,792</u>
Receipts Over (Under) Disbursements	<u>11,295</u>
Transfers In	0
Transfers Out ²	<u>(9,206)</u>
Receipts Over (Under) Disbursements and Transfers	<u>2,089</u>
Cash and Investments, July 1	<u>13,083</u>
Cash and Investments, June 30	<u><u>\$ 15,172</u></u>

Appendix A

Office of State Treasurer
Statement of Receipts, Disbursements, and Changes in Cash and Investments
Year Ended June 30, 2020

ABANDONED FUND ACCOUNT FUND

Receipts	\$ 85,125,754
Disbursements	<u>40,150,877</u>
Receipts Over (Under) Disbursements	<u>44,974,877</u>
Transfers In ³	4,457,246
Transfers Out ⁴	<u>(57,638,626)</u>
Receipts Over (Under) Disbursements and Transfers	<u>(8,206,503)</u>
Cash and Investments, July 1	<u>34,313,224</u>
Cash and Investments, June 30	<u><u>\$ 26,106,721</u></u>
 Total Cash and Investments, June 30, All Funds	 <u><u>\$ 27,970,038</u></u>

¹ Transfers In consists of net proceeds received from the sale of surplus property.

² Transfers Out generally include payments for fringe benefits and the state's cost allocation plan.

³ Transfers In generally include the receipt of outdated state checks by the Abandoned Fund Account Fund.

⁴ Transfers Out generally include payments for fringe benefits, distribution of excess cash balance of the Abandoned Fund Account Fund to the General Revenue Fund and the State Public School Fund, and distribution of certain unclaimed property values to the Mental Health Trust Fund in accordance with state laws.

The accompanying Notes to the Appendixes are an integral part of this statement.

Appendix B

Office of State Treasurer Comparative Statement of Appropriations and Expenditures

	Year Ended June 30,					
	2020			2019		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
GENERAL REVENUE FUND						
Issuing duplicate/outlawed checks	\$ 3,000,000	2,629,571	370,429	3,000,000	1,888,025	1,111,975
Refunds of excess interest from the linked deposit program	2,500	198	2,302	2,500	208	2,292
Total General Revenue Fund	3,002,500	2,629,769	372,731	3,002,500	1,888,233	1,114,267
STATE TREASURER'S GENERAL OPERATIONS FUND						
Personal service	1,896,299	1,663,277	233,022	1,661,311	1,585,475	75,836
Expense and equipment	355,672	238,840	116,832	270,672	223,501	47,171
Mileage reimbursement	523	0	523	0	0	0
Operation of state-owned facilities, utilities, systems furniture, and structural modifications - expense and equipment	188,565	188,565	0	189,176	189,092	84
Total State Treasurer's General Operations Fund	2,441,059	2,090,682	350,377	2,121,159	1,998,068	123,091
TREASURER'S INFORMATION FUND						
Preparation and dissemination of information or publications, or for refunding overpayments	8,000	243	7,757	8,000	337	7,663
Total Treasurer's Information Fund	8,000	243	7,757	8,000	337	7,663
CENTRAL CHECK MAILING SERVICE REVOLVING FUND						
Personal service	12,923	12,534	389	12,557	12,202	355
Expense and equipment	100,000	58,258	41,742	225,000	67,514	157,486
Total Central Check Mailing Service Revolving Fund	112,923	70,792	42,131	237,557	79,716	157,841

Appendix B

Office of State Treasurer Comparative Statement of Appropriations and Expenditures

	Year Ended June 30,					
	2020			2019		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
ABANDONED FUND ACCOUNT FUND						
Personal service	658,955	573,136	85,819	603,736	577,567	26,169
Expense and equipment	98,600	60,894	37,706	98,600	72,117	26,483
Advertising and auctions	1,475,000	1,244,768	230,232	1,475,000	1,302,452	172,548
Payment of claims for abandoned property transferred by holders to the state	49,000,000	38,218,447	10,781,553	49,000,000	43,372,088	5,627,912
Total Abandoned Fund Account Fund	51,232,555	40,097,245	11,135,310	51,177,336	45,324,224	5,853,112
Total All Funds	\$ 56,797,037	44,888,731	11,908,306	56,546,552	49,290,578	7,255,974

The accompanying Notes to the Appendixes are an integral part of this statement.

Appendix C

Office of State Treasurer Comparative Statement of Expenditures (From Appropriations)

	Year Ended June 30,				
	2020	2019	2018	2017	2016
Salaries and wages	\$ 2,248,947	2,175,245	2,178,205	2,132,503	1,975,562
Travel, in-state	13,217	8,847	5,840	7,970	12,155
Travel, out-of-state	8,671	17,625	16,927	16,941	17,562
Supplies	209,143	227,789	235,495	224,035	238,068
Professional development	25,194	27,206	31,318	24,543	25,167
Communication services and supplies	113,161	101,110	116,255	93,507	90,920
Services:					
Professional	1,075,546	1,099,114	1,082,089	1,328,315	1,071,939
Housekeeping and janitorial	1,980	2,145	1,815	1,980	1,980
Maintenance and repair	84,011	80,621	80,463	78,979	70,556
Equipment:					
Computer	10,610	83,644	28,767	16,968	149,959
Motorized	47,176	0	0	0	0
Office	5,600	5,722	31,658	57,827	17,817
Other	0	1,375	15,473	823	10,882
Debt service ¹	0	0	0	10,000,000	0
Building lease payments	192,981	193,192	185,629	185,113	183,883
Equipment rental and leases	15	0	45	3,470	0
Miscellaneous expenses	4,263	6,622	3,780	4,559	3,029
Refunds	198	208	694	0	290
Program distributions:					
Aid to local governments ¹	0	0	0	2,000,000	0
Abandoned funds claim payments	38,218,447	43,372,088	43,734,033	43,082,600	38,888,067
Replacement of outlawed checks	2,629,571	1,888,025	1,803,708	3,101,374	2,136,558
Total Expenditures	\$ <u>44,888,731</u>	<u>49,290,578</u>	<u>49,552,194</u>	<u>62,361,507</u>	<u>44,894,394</u>

¹ In the fiscal year 2017 budget, the General Assembly moved the appropriation for the state's share of debt service and maintenance payments for the Edward Jones Dome from the Office of Administration to the Office of State Treasurer. At the Office of State Treasurer's request, the appropriation was moved back to the Office of Administration in the fiscal year 2018 budget.

The accompanying Notes to the Appendixes are an integral part of this statement.

Appendix D

Office of State Treasurer Comparative Statement of Funds in Custody of State Treasurer

	June 30,				
	2020	2019	2018	2017	2016
APPROPRIATED FUNDS					
Demand Deposits:					
US Bank	\$ 1,753,729	339,723	190,783	1,006,127	2,718,966
Central Bank	(38,912,763)	(110,197,759)	(63,968,235)	(84,044,969)	(25,848,693)
Wells Fargo Bank	60,005,009	2,503,721	10,103,874	5,384	75,028,840
Commerce Bank	10,758,154	1,141,197	1,168,616	3,611,892	10,843,993
UMB Bank	2,369,409	166,337	107,057	93,945	16,425
Collection bank accounts	2,801,637	2,227,451	2,774,502	2,985,918	3,044,368
Total Demand Deposits	<u>38,775,175</u>	<u>(103,819,330)</u>	<u>(49,623,403)</u>	<u>(76,341,703)</u>	<u>65,803,899</u>
Pooled Investments:					
Time deposits	366,673,666	373,181,821	498,249,439	454,627,838	461,744,279
U.S. government securities	3,419,134,912	2,543,993,000	2,295,041,372	2,367,934,784	2,232,541,484
Commercial paper and banker acceptances	399,392,194	0	0	0	0
Repurchase agreements	1,738,646,000	1,258,562,000	1,166,852,000	780,508,000	1,088,870,000
Total Pooled Investments	<u>5,923,846,772</u>	<u>4,175,736,821</u>	<u>3,960,142,811</u>	<u>3,603,070,622</u>	<u>3,783,155,763</u>
Total Demand Deposits and Pooled Investments	<u>5,962,621,947</u>	<u>4,071,917,491</u>	<u>3,910,519,408</u>	<u>3,526,728,919</u>	<u>3,848,959,662</u>
Special Fund Dedicated Investments:					
U.S. government securities	59,648,576	57,292,398	55,112,253	52,812,899	51,886,441
Donated corporate stock	5,130	5,130	5,130	5,130	5,130
Total Special Fund Dedicated Investments	<u>59,653,706</u>	<u>57,297,528</u>	<u>55,117,383</u>	<u>52,818,029</u>	<u>51,891,571</u>
Total Appropriated Funds	<u>6,022,275,653</u>	<u>4,129,215,019</u>	<u>3,965,636,791</u>	<u>3,579,546,948</u>	<u>3,900,851,233</u>
NONAPPROPRIATED FUNDS					
Demand deposits	<u>13,552,430</u>	<u>12,950,572</u>	<u>13,141,371</u>	<u>13,003,465</u>	<u>12,553,715</u>
Total Nonappropriated Funds	<u>13,552,430</u>	<u>12,950,572</u>	<u>13,141,371</u>	<u>13,003,465</u>	<u>12,553,715</u>
Total Cash and Investments	<u>\$ 6,035,828,083</u>	<u>4,142,165,591</u>	<u>3,978,778,162</u>	<u>3,592,550,413</u>	<u>3,913,404,948</u>

The accompanying Notes to the Appendixes are an integral part of this statement.

Appendix E

Office of State Treasurer

Comparative Statement of Interest Received on Pooled Investments

		Year Ended June 30,				
		2020	2019	2018	2017	2016
INTEREST RECEIPTS						
Appropriated funds	\$	<u>76,066,140</u>	<u>75,018,369</u>	<u>47,231,264</u>	<u>27,978,208</u>	<u>23,254,495</u>
Total Interest Receipts	\$	<u><u>76,066,140</u></u>	<u><u>75,018,369</u></u>	<u><u>47,231,264</u></u>	<u><u>27,978,208</u></u>	<u><u>23,254,495</u></u>

The accompanying Notes to the Appendixes are an integral part of this statement.



Notes to the Appendixes

1. Basis of Presentation

Amounts presented in Appendixes A through E are reported on the budgetary or cash basis of accounting. The budgetary basis recognizes revenues as cash is received and expenditures as cash is disbursed. Missouri issues a Comprehensive Annual Financial Report for each fiscal year ended June 30, in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The financial activity of the Office of State Treasurer is included in the Comprehensive Annual Financial Report.

The amounts presented in Appendix A represent receipts, disbursements, transfers, and cash and investment balances of funds that are dedicated to the activities and programs of the office.

The amounts presented in Appendixes B and C represent funds appropriated to the office by the Missouri General Assembly and expended by the office.

The amounts presented in Appendixes D and E represent all funds in the state treasury and all trust funds in the custody of the State Treasurer.

State treasury funds are subject to appropriation; trust funds are not. The appendixes do not include any funds or investments that are not in the custody of the State Treasurer.

2. Cash and Investments

Article IV, Section 15 of the Missouri Constitution establishes the State Treasurer as custodian of all state funds and funds received from the U.S. government. This section further authorizes the State Treasurer to place all such monies on time deposit, bearing interest, in Missouri banking institutions selected by the State Treasurer and approved by the Governor and the State Auditor, or in obligations of the U.S. government or any agency or instrumentality thereof maturing or becoming payable not more than 5 years from the date of purchase. In addition, the State Treasurer may enter into repurchase agreements maturing and becoming payable within 90 days secured by U.S. Treasury obligations or obligations of U.S. government agencies or instrumentalities of any maturity, as provided by law. The State Treasurer may also invest in banker's acceptances issued by domestic commercial banks possessing the highest rating issued by at least 2 nationally recognized statistical rating organizations and in commercial paper, issued by domestic corporations receiving the highest rating issued by at least 2 nationally recognized statistical rating organizations. Investments in bankers acceptances and commercial paper shall mature and become payable not more than 180 days from the date of purchase, maintain the highest rating throughout the duration of the investment and meet any other requirements provided by law. The State Treasurer shall prepare, maintain, and adhere to a written investment policy that shall include an asset allocation plan limiting



Office of State Treasurer
Organization and Statistical Information

the total amount of state money that may be invested in each investment category authorized by law.

Deposits

The State Treasurer maintains approximately 41 demand deposit bank accounts that serve as the state's primary operating accounts, and 83 additional demand deposit bank accounts throughout the state, some with multiple depositing locations, that serve as collection accounts for various state agencies. Cash balances in the state's operating accounts that are not needed for immediate use are invested.

The demand deposit accounts on Appendix D are used to manage the state's daily receipt, disbursement, and transfer activities and to segregate funds available for investing. The demand deposit accounts consist of the following:

Demand Deposit Accounts

	June 30, 2020		June 30, 2019		June 30, 2018	
	Bank Balance (\$)	Number of Accounts	Bank Balance (\$)	Number of Accounts	Bank Balance (\$)	Number of Accounts
US Bank	1,753,729	1	339,723	1	190,783	1
Central Bank	136,164,728	30	31,494,061	30	53,972,648	32
Commerce Bank	10,776,522	8	1,238,809	8	1,293,481	8
Wells Fargo	60,000,000	1	2,500,000	1	10,100,000	1
UMB Bank	2,369,409	1	166,337	1	107,057	1
Collection bank accounts	2,822,166	83	2,242,413	84	2,891,959	101

Banking service agreements on the operating demand accounts allow the State Treasurer to invest outstanding checks up until the checks clear the bank, thereby investing an amount in excess of book balances. Negative balances at June 30 (Appendix D) for any bank's appropriated funds demand deposits represent the book balance net of amounts invested.

The State Treasurer's deposits at June 30, 2020, were entirely covered by federal depositary insurance or by collateral securities held by the custodial banks in the State Treasurer's name.

To protect the safety of state deposits, Sections 30.270 and 110.020, RSMo, require depositaries to pledge collateral securities to secure deposits not insured by the Federal Deposit Insurance Corporation.

Investments

The State Treasurer's investments at June 30, 2020, are listed by type below to give an indication of the level of risk assumed by the state at year end. All investments are insured or registered, or have collateral held by the State Treasurer or a custodial bank in the state's name.



Office of State Treasurer
Organization and Statistical Information

Investments in Custody of State
Treasurer - June 30, 2020

		Reported Amount	Fair Value
Time deposits	\$	366,673,666	366,677,546
U.S. government securities		3,478,783,488	3,495,115,947
Commercial paper		399,392,194	399,933,167
Repurchase agreements		1,738,646,000	1,738,646,000
Other investments		5,130	111,918
Total investments	\$	5,983,500,478	6,000,484,578

Investments are recorded at acquisition cost except "other" investments, which are recorded at par. Investments in time deposits and repurchase agreements are acquired at face value and earn a stated interest rate. Investments in U.S. government securities are acquired at fair value and mature at face value.

4. Special Fund Dedicated
Investments

The State Treasurer is assigned the authority for recording direct investments of special funds in the accounting system. The amounts presented as special fund dedicated investments in the appropriated funds on Appendix D include funds under the control of certain state agencies that represent specific investments made or held by the State Treasurer on behalf of the Pansy Johnson-Travis Memorial State Gardens Trust Fund and the State Public School Fund. The State Treasurer is responsible for purchasing, custodial, income collection, distribution, and record-keeping duties related to the investments of these funds.

The investments of the Pansy Johnson-Travis Memorial State Gardens Trust Fund are maintained in the instruments transferred to the State Treasurer from the previous trustee of the fund. The investment purchases for the State Public School Fund are made in accordance with the instructions of the State Public School Fund investment committee.